# NOTE 16 - DEFINED BENEFIT PENSION PLAN – STATEWIDE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

#### **Plan Description**

All firefighters and police officers hired after June 15, 1980, and other full-time and certain part-time employees of the City hired after June 30, 1978, except employees of the MCDA, are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PERFF), which are cost sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes chapters 353 and 356.

The police officers and firefighters are covered by the PEPFF. All other full-time and certain part-time employees covered by the defined benefit pension plans administered by the PERA are members of the PERF. PERF members of the City belong to the Coordinated Plan and are covered by Social Security.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3 percent for each year of service.

For all Public Employees Police and Fire Fund members and Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree; no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained by writing to PERA, 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-1855, or by calling (651) 296-7460 or 1-800-652-9026.

# NOTE 16 - DEFINED BENEFIT PENSION PLAN – STATEWIDE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

## **Funding Policy**

Minnesota Statutes chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Coordinated Plan members are required to contribute 5.10 percent of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.2 percent of their annual covered salary.

The City is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund
Coordinated Plan members 5.53 %
Public Employees Police and Fire Fund 9.30 %

The City contributions for the years ending December 31, 2000, 2001, and 2002 for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>PERF</u>	<b>PEPFF</b>	
2000	4,886	5,337	
2001	5,239	5,655	
2002	5,837	6,219	

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

# NOTE 17 - DEFINED BENEFIT PENSION PLAN - MULTIPLE EMPLOYER MINNEAPOLIS EMPLOYEES RETIREMENT FUND

## **Plan Description**

All full-time City employees hired on or before June 30, 1978, other than firefighters, police officers, and employees of the MCDA, are covered by the Minneapolis Employees Retirement Fund (MERF), a defined benefit pension plan which is a cost-sharing, multiple-employer retirement plan. This plan is administered in accordance with Minnesota Statutes Chapter 422A.

The MERF pension plan provides pension benefits, deferred annuity, and death and disability benefits as set by state statute. Members are eligible for service retirement either:

- 1) With 30 or more years of service at any age; or
- 2) At age 60 with three or more years of service; or
- 3) At age 65 with one year of service; or
- 4) With 20 or more years of service at age 55 under the Two Dollar Bill method of retirement (money purchase plan), if a MERF member prior to June 28, 1973.

The MERF provides a number of retirement options from which the member may choose. The maximum benefit one may receive is a retirement allowance payable throughout life. Participants may receive lesser retirement allowances if they choose payments for a guaranteed number of years, request a certain percent or dollar amount of their retirement allowances to go to a beneficiary or if they chose to provide for a certain amount to be paid out upon death. The benefit amount for all options, except the money purchase plan, is calculated based on the average of the highest five years salary within the last ten

years of employment and years of creditable service at the date of retirement. The member will receive a benefit amount equal to 2 percent of that average salary for each of the first ten years of service, and 2.5 percent of that salary for each year over ten years of service.

A monthly retirement benefit is available to employees who have under three years of service in the MERF, but only when these years, combined with service in other Minnesota statewide retirement systems, total three or more years. A monthly retirement benefit is also available to employees who have less then three years of combined allowable service in any of the qualifying funds, provided the employee works until age 65.

Employees who leave public service before retirement and before age 60 may receive a refund of all personal contributions, with interest, except for the survivor benefit contribution, which is the equivalent of a non-refundable term insurance premium. Employees who leave public service after age 60 may not withdraw personal contributions with interest unless they have worked under three years and do not qualify for monthly retirement benefits.

Pension provisions include death benefits for a beneficiary or surviving spouse, and disability benefits for a disabled employee, as defined by the fund.

The MERF issues a publicly available financial report that includes financial statements and required supplementary information for the MERF. This report may be obtained by writing to MERF, 706 – Second Avenue South, #800, Minneapolis, Minnesota 55402, or by calling (612) 335-5950.

#### **Funding Policy**

Minnesota Statutes Chapter 422A sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Employees contribute 9.25% of salary into the Deposit Accumulation Reserve and .50% of salary (subject to annual adjustment) into the Survivor Benefits Reserve. Employers, including the City, contribute any excess of normal cost contributions of 9.75% of salary. The unfunded actuarial liability is funded partially by payments each year of 2.68% of salary plus \$3,900 from all employers. MERF has a target date of June 30, 2020 to fully amortize the unfunded liability. The City levies taxes to finance the employer's share of pension costs for the General Fund.

The City's contributions for the years ended June 30, 2000, 2001, and 2002 for the MERF were:

2000	\$7,601
2001	\$7,326
2002	\$8,757

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

# NOTE 18 - DEFINED BENEFIT PENSION PLAN - SINGLE EMPLOYER MINNEAPOLIS FIREFIGHTER'S RELIEF ASSOCIATION, MINNEAPOLIS POLICE RELIEF ASSOCIATION

### **Plan Description**

Firefighters and police officers hired prior to June 15, 1980, are members of their respective relief associations. Each Association is the administrator of a single-employer defined benefit pension plan. The Minneapolis Firefighter's Relief Association (MFRA) was established November 24, 1886. It operates under the provisions its bylaws and Minnesota State Law. The Minneapolis Police Relief Association (MPRA) was established on August 23, 1905, and it operates under the provisions of Minnesota Statutes, sections 423B.01-.18 and 69.80.

Each member who is at least 50 years of age and has five years of service with the Minneapolis Fire Department or the Minneapolis Police Department is eligible to receive a service pension, monthly, for the remainder of the member's life. All benefits are based on a plan of a number of units. A unit is 1/80th of the maximum current monthly salary of a first grade firefighter (MFRA) or a first grade patrol officer (MPRA). Pensions are based on current Minneapolis Fire Department payroll or Minneapolis Police Department payroll and are fully escalated for all persons receiving a pension benefit. Each vested MFRA member also receives a lump sum amount, at the time of separation, from the MFRA's General Fund based on the number of years the member has belonged to the MFRA.

A member is entitled to disability benefits in conformity with the provisions applicable to the association and the circumstances of the disability, not to exceed 41 units (MFRA) or 34 units (MPRA). Death benefits for a beneficiary or surviving spouse are also available.

The MFRA issues a publicly available financial report that includes financial statements and required supplementary information for the MFRA. The most recent report, dated December 31, 2001, may be obtained by writing to the Minneapolis Firefighter's Relief Association at 2021 East Hennepin Avenue, Suite 360, Minneapolis, Minnesota 55413. The MPRA issues a publicly available financial report that includes financial statements and required supplementary information for the MPRA. The most recent report, dated December 31, 2001, may be obtained by writing to the Minneapolis Police Relief Association. 10 - Second Street Northeast, Suite 103, Minneapolis, Minnesota, 55413.

### **Funding Policy**

Authority for contributions to the MFRA and the MPRA pension plans is established by Minnesota Statutes, section 69.77 and may be amended only by the Minnesota State Legislature. The MFRA and the MPRA funding policies provide for contributions from the City, the State of Minnesota, and active plan members. City contributions are actuarially determined which requires full funding of the MFRA's accrued liability and the MPRA's accrued liability by the year 2010. The City contributed \$ 1,232 to MFRA and \$ 3,459 to MPRA for the fiscal year ended December 31, 2001. Employees under these plans contribute annually an amount equal to eight percent of the maximum first grade firefighter's salary or eight percent of the maximum top grade patrol officer's salary from which pension benefits are determined. The State of Minnesota annually contributes two percent fire premium insurance aid and the amortization state aid to the MFRA and two percent peace officers' state aid to the MPRA.

# NOTE 18 - DEFINED BENEFIT PENSION PLAN - SINGLE EMPLOYER MINNEAPOLIS FIREFIGHTER'S RELIEF ASSOCIATION MINNEAPOLIS POLICE RELIEF ASSOCIATION (continued)

The City's annual pension cost for the fiscal year ended December 31, 2001, and related information for each plan is as follows:

	MFRA	MPRA
Annual pension cost	\$1,232	\$3,459
Contributions made	\$1,232	\$3,459
Actuarial valuation date	12/31/2001	12/31/2001
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Level Percentage of Payroll	Level Percentage of Payroll
Remaining amortization period	10 years, closed	10 years, closed
Asset valuation method	Book value plus the average	Book value plus the average
	unrealized gain for the last	unrealized gain for the last
	three years minus excess	three years minus excess
	investment income as	investment income as
	defined by state law.	defined by state law.
Actuarial assumptions:		
Investment rate of return	6% per annum	6% per annum
Projected salary increases:	4% per annum	4% per annum
Inflation	NA	NA
Cost-of-living adjustments	NA	NA

## **Three-Year Trend Information:**

Year	Annual Pension	Percentage of APC	Net Pension
<b>Ending</b>	Cost (APC)	Contributed (%)	<b>Obligation</b>
MFRA			
1999	1,177	100	-
2000	1,938	100	-
2001	1,232	100	-
MPRA			
1999	3,719	100	-
2000	4,563	100	-
2001	3,459	100	-

# NOTE 18 - DEFINED BENEFIT PENSION PLAN - SINGLE EMPLOYER MINNEAPOLIS FIREFIGHTER'S RELIEF ASSOCIATION, MINNEAPOLIS POLICE RELIEF ASSOCIATION (continued)

There have been no significant changes to plan provisions and actuarial methods and assumptions in the last six years.

## **Schedules of Funding Progress:**

### MFRA:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (Previous Fiscal Year) ( c )	UAAL as a Percentage of Covered Payroll (%) ((b - a)/c)
1999	318,043	291,168	(26,875)	109.2	10,040	(267.7)
2000	315,900	293,802	(22,098)	107.5	9,653	(228.9)
2001	304,887	293,396	(11,491)	103.9	5,888	(195.2)

#### **MPRA:**

					Annual	
		Actuarial			Covered	UAAL as a
	Actuarial	Accrued			Payroll	Percentage
Actuarial	Value of	Liability (AAL)	Unfunded	Funded	(Previous	of Covered
Valuation	Plan Assets	Entry Age	AAL (UAAL)	Ratio (%)	Fiscal Year)	Payroll (%)
Date	(a)	(b)	(b - a)	(a/b)	( c )	((b - a)/c)
1999	427,122	447,596	20,474	95.4	7,504	272.8
2000	391,083	447,086	56,003	87.5	6,583	850.7
2001	349,170	464,649	115,479	75.1	5,238	2204.6